UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES 1997 REPORT

OVERVIEW

by the Secretary-General of UNCTAD

UNITED NATIONS

EMBARGO

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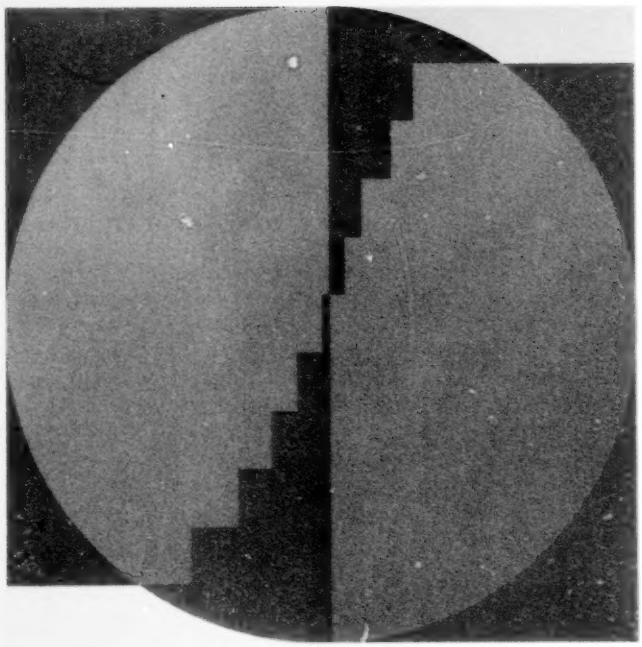
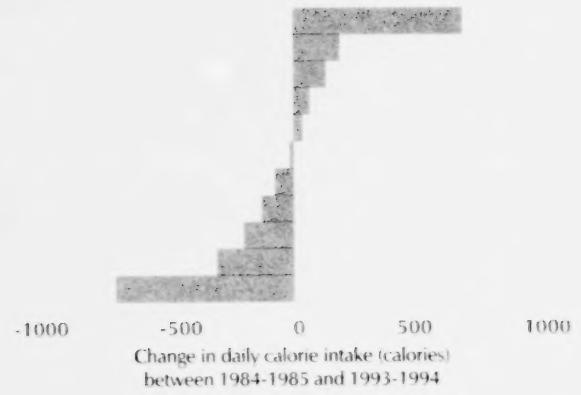


Per Capita Food Availability in Selected LDCs between 1984-1985 and 1993-1994



This year's Report examines two separate but related issues – agriculture and economic regress. Economic regress has an impact on agricultural performance, and one way in which this manifests itself is through a change in the amount of food people eat per day. The chart on the cover of this year's Report is based on data on per capita food consumption in selected LDCs. There has been a wide disparity in performance within the LDC group: for instance, while Burkina Faso has recorded an increase of around 700 calories per capita over the ten-year period, in some LDCs experiencing various forms of economic regress, daily calorie intake has fallen, in some cases by as much as 750 calories per person per day. For more information and the source data for the chart, see tables 9 and 12, on pages 66 and 130 of the Report, respectively.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva

The Least Developed Countries 1997 Report

Overview

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UNITED NATIONS
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Introduction

Important, and on balance encouraging, developments have taken place among the least developed countries in the mid-1990s. The determined efforts to implement economic policy reforms have led to improved economic performance in about half of the LDCs. The economic revival is most notable in Africa, where economic growth rates have risen to levels that, on average, involve modest increases in per capita output. Macroeconomic reforms, particularly exchange rate reforms, have played an important role in stimulating higher growth rates in many LDCs. Economic improvement has taken place despite the continued stagnation of aid flows to LDCs and the persistence of their external debt problems. Reduction of the external debt burden, together with an increase in aid flows, would provide strong support for the economic reforms currently underway in LDCs, and help ensure that the current revival is sustained. The recent economic performance of the LDCs and developments in external financing are reviewed in Part One of the full Report.

While improved macroeconomic policy has been vital to the economic revival in many LDCs, sustaining the recovery and accelerating growth rates to levels at which substantial reductions in poverty can be achieved will require greater attention to institutional and sectoral reforms. In most LDCs, the area in which those reforms are likely to have their greatest impact is agriculture. Agriculture is the single most important sector in LDCs' economies in terms of its contribution to output, employment and incomes. Increasing productivity in agriculture, especially in smallholder agriculture, is essential if the living standards of the majority of the poor, who live in the rural areas, are to be raised, and if food security is to be enhanced. Agriculture is an important source of savings and foreign exchange. Development of the agricultural sector offers most LDCs their best prospects for accelerating GDP growth rates and for boosting and diversifying their exports. Also, it can give a crucial boost to the nascent manufacturing sector, by expanding the internal market for consumer goods and providing raw materials for processing industries. Agricultural reforms laid the foundations for the rapid growth and development of some of the most dynamic developing economies in Asia. The lessons of successful agricultural reform in Asia for the LDCs are analysed in the Report.

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There has been a growing recognition in recent years of the crucial role played by institutions in economic development. The disparities in economic performance among LDCs are largely explained by internal factors, including the quality of governance. For a significant number of LDCs, the deterioration of the institutional structure of society, particularly state structures, has retarded development over a prolonged period. The economic and social regress afflicting these countries is examined in the final part of this year's Report. The most extreme and damaging forms of regress are manifested in internal conflicts which have ravaged several LDCs. The Report argues that the international community cannot afford to ignore the problems of regress in LDCs: in addition to the obvious humanitarian considerations, the economic and social consequences of regress are huge, often with significant regional dimensions. The international community should give urgent attention to helping LDCs strengthen their institutional structures in order to prevent state collapse, facilitate a peaceful resolution of internal conflicts and rebuild war-torn societies.

"For perhaps the first time, we are in a position to build a free and open world economy in which all countries can participate and from which all countries can benefit. For the first time, long cherished hopes of eradicating poverty seem attainable, provided that concerted political will is brought to the task."

Statement by the Secretary-General of the United Nations to the High-Level Segment of the 1997 Substantive Session of the Economic and Social Council, July 1997, SG/SM/97/138.

Developments in LDCs and the World Economy in 1996

Although growth rates for **the LDC group** fell in 1996 compared with 1995, growth has been relatively robust, and many LDCs have performed well enough to have recorded not only real increases in output, but also real increases in per capita income. There has been a very slight difference between the performance of African and Asian LDCs. The LDCs are an extremely heterogeneous group, however, and the most significant disparities in performance exist not at a regional but at a country level, with a difference of over 20 per cent between the highest and lowest GDP growth rates for LDCs.

The future is looking decidedly brighter for LDCs in **Africa** than has been the case for quite some time. Many African countries, including LDCs, have experienced higher growth rates since 1994; 19 African LDCs have had growth rates in excess of 4 per cent, and 10 of those have had GDP growth rates higher than 5 per cent. There are indications that this trend is set to continue. In many countries, export production has been increased, inflation rates have been reduced and reform has been consistently well implemented since the 1990s.

GDP REAL GROWTH RATES
(Percentage per annum)

	1990-1994	1995	1996
All LDCs	3.1	5.2	4.7
African LDCs	2.9	5.4	4.6
Asian LDCs	3.9	4.6	4.8
Memo items:			
Developed market economy countries	1.6	2.0	2.3
Developing countries	4.6	4.8	5.6
World	1.6	2.4	2.8

Source: UNCTAD secretariat calculations, based on data from the Economic Commission for Africa, the Asian Development Bank and the IMF (*World Economic Outlook 1997*).

LDCs in the CFA franc zone have benefited from the 1994 devaluation of the CFA franc. This overvalued currency had long stifled growth in the traded goods sector and had, to some extent, undermined the credibility and effectiveness of economic reform in the region. That all nine members of the CFA zone achieved positive growth in 1996 and that several CFA countries have also boosted production of cotton, their principal export crop, suggests that reforms have been successful. Other African countries (particularly in East and Southern Africa) have had good weather, and as a result, large increases in cereal production have been recorded. Unfortunately, however, many LDCs in Africa continue to be blighted by civil strife and political instability.

Asian LDCs have benefited from their location in the world's fastest-growing region. The recent dynamism of the larger Asian economies, in particular India and China, has spilled over into neighbouring LDCs. The average growth rate across the Asian LDC subgroup has thus increased, the output expansion in Cambodia and the Lao People's Democratic Republic having been particularly rapid. The largest LDC, Bangladesh, has not performed as well as might have been hoped. This is partly due to delays in the implementation of economic reforms.

These developments have taken place against a background of a modest overall growth in the **world** economy (with growth slightly higher than in 1995), though there has been a marked decrease in the expansion of world trade. Globally, Asia remains the fastest-growing region, despite the fact that the levels of increase have fallen slightly owing to a deceleration of export growth and a tightening of demand management in some countries. Against this background, the increases in growth in Latin America and Africa – up to 3.9 per cent from less than 3 per cent in 1995 – are all the more impressive.

In the short run, the external economic environment facing LDCs is expected to be fairly stable. Growth in the world economy is expected to remain steady during 1997, and the current sharp

rise in tropical beverage prices will benefit many LDCs. Internal factors, however, are likely to be at least as important as the external environment in determining the economic performance of most LDCs. Reform programmes have been successfully implemented and savings and investment performance has improved, which suggests that the present LDC growth rates will be sustained for some time to come. Under these circumstances, peace, security and competent governance become crucial externalities if the economic recovery which has begun for some LDCs is to be sustainable and replicable throughout the LDC group.

The fact that growth rates have remained relatively strong in many LDCs is particularly encouraging in view of the unfavourable developments in non-oil **primary commodity** prices. Sluggish industrial activity in the major importing countries, oversupply and speculative trading exerted considerable downward pressure on prices. Thus, after a more or less stable first quarter in 1996 the combined dollar index of non-oil primary commodity prices steadily weakened during the remainder of the year; and from a 1990-1995 annual average growth rate of 2.6 per cent, it fell by -4.3 per cent in 1995-1996. Of particular concern to LDCs were declines in tropical food prices (15 per cent) and minerals (13 per cent). Precipitous falls in the prices of coffee and copper (over 20 per cent) were of special concern, although the fall in the price of coffee (26 per cent) was not as catastrophic as had been feared, because of low stocks and voluntary production ceilings set by the members of the Association of Coffee Producing Countries.

The decline in primary commodity prices draws attention to the vulnerability of many LDCs to trends on the world market. However, a few LDCs, such as Madagascar, have managed to **diversify** into areas with higher growth potential, and are beginning to reap the rewards of an active commodity diversification programme.

The fact of the only slight drop in LDC growth is encouraging also because of the trend towards **declining aid flows** to LDCs. In

1992, DAC member countries allocated 0.05 per cent of GNP to LDC development assistance. In 1995, that share had fallen to just 0.06 per cent, the lowest on record. This was despite record flow levels for all developing countries in 1995 (particularly private flows) and a commitment in 1990 at the Second United Nations Conference on LDCs to increase the aid flow level. LDCs have also suffered because the purpose of aid flows has shifted towards short-term emergency relief projects, away from longer-term development programmes.

LDCs' external debt burden continues to be a constraint on their capacity to accelerate development; it limits imports, and dampens prospects for larger private capital inflows. In almost half of the LDCs, outstanding debt continues to exceed GDP.

The most important recent development in debt relief for LDCs came at the annual meeting of the World Bank and International Monetary Fund in September 1996, with the endorsement of the **HIPCs initiative** – the heavily indebted poor countries initiative. This initiative provides a useful framework for implementing a strategy of burden sharing among all creditors to reduce the HIPCs' debt to a sustainable level. Debtor countries will have to show a record of good policy performance over a six-year period. Unfortunately, however, because of this requirement, few LDCs appear likely to benefit from the initiative in the first instance, far fewer than the original list of potential beneficiaries appeared to indicate. This delay will represent a lost opportunity for the revival of output growth in many LDCs.

Agriculture

Part Two of the Report discusses agriculture. Most LDCs have tended to neglect the agricultural sector despite its significant contribution to their GDP. This Report argues that to be able to attain and sustain high growth rates, LDCs will have to prioritize agriculture as part of their overall growth strategies. A dynamic agricultural sector will almost certainly lead to more broadly based and equitable development, given the huge importance of agriculture in LDCs as a source of food and livelihood for a large majority of the population.

There are four compelling reasons for LDC governments to prioritize the agricultural sector. *First*, enhanced agricultural growth will increase the incomes of the LDCs' rural populations, thereby contributing to poverty reduction and qualitative improvements in rural life. *Second*, increased rural incomes will expand domestic markets. *Third*, to maintain current levels of food consumption, agricultural growth and/or food imports must keep pace with prevailing high population growth rates. *Fourth*, a dynamic agricultural sector would provide the basis for agro-processing industrialization, which could enhance employment opportunities in both urban and rural areas.

A strong and well-developed agricultural sector is also a means to **broader developmental ends**. While there are marked differences in the experiences of the more advanced developing economies of Asia, a number of them, including Malaysia, the Republic of Korea and Thailand, significantly enhanced the efficiency of their agricultural sectors as a prelude to their industrialization drive. Indeed, in almost all these economies, progress in the manufacturing sector was preceded by steady growth in the agricultural sector, spurred on by investments in new agricultural technologies, combined with land reforms, particularly in the case of the Republic of Korea. To a large extent, increases in agricultural productivity and growth, and progress in tackling the basic problem of "entitlements" (i.e. poverty and food security), were a pre-

requisite for the push towards industrialization in the more advanced Asian developing economies.

Of course, there is always a danger that important differences will be papered over when one is extrapolating from one context to another. Nonetheless, the East and South Asian experience suggests certain lessons. One such lesson is that the correction of distortions in agricultural pricing is a necessary but not a sufficient condition for attaining high and sustainable agricultural growth rates: there are other **"non-price" factors** which must also be tackled simultaneously. In view of the scarcity of resources, LDCs may have to aim first at a dynamic agricultural sector, thus laying the foundation for a steady build-up into an industrialization phase.

A viable long-term agricultural strategy would include at least six main components:

- sound macroeconomic policies which emphasize *inter alia* trade liberalization and a realignment of exchange rates to realistic levels;
- a reduction in direct taxation of agricultural output, particularly of export crops;
- "appropriate" agricultural technology which allows productivity increases in an environmentally sustainable manner sensitive to the social and economic contexts of LDCs;
- programmes to alleviate constraints on the adoption of technological innovations (e.g. shortage of credit, and weak rural physical and social infrastructure);
- an efficient agricultural marketing system, including well-functioning markets for inputs and outputs;
- strengthened institutional support, e.g. extension services, research into staple or food crops, and soil and water management.

While private investment may be required in areas such as marketing of inputs/outputs, and credit provision, LDC governments must take the lead in providing other facilities, e.g. research and extension. Not only are such services "public goods", but also they are unlikely to be provided to any degree by the inevitably

underdeveloped LDC private sector. This has implications for donors and the international community: almost all LDCs lack the necessary skills and resources to undertake the huge investments involved in implementing the strategy outlined above without external assistance. This underscores the need for enhanced financial and technical assistance.

Why is there agricultural stagnation in LDCs?

The long-term problems of LDC agriculture are partly explained by **historical factors**. Traditional production relations, rudimentary technology, the mode of access to, and ownership of, land, and a context of low and unreliable raintall (particularly in African LDCs) have all played a part in the underdevelopment of the sector. The primary weakness of LDC agriculture, however, lies in **government policies** which have been inimical to the development of a strong agricultural sector. These include overvalued domestic currencies, state intervention in agricultural marketing, overtaxation of agricultural exports, and urban bias (the consequence of which is poor rural infrastructure and lack of basic facilities in rural areas). There has also been a **lack of political commitment** to an efficient institutional agricultural framework. Consequently, agricultural extension systems have proved ineffective and inefficient, and research into high-yielding varieties and environmental management has been negligible.

State intervention in agricultural input supply, processing and marketing has created many distortions and inefficiencies in agricultural trade. **High levels of protection** for domestic industry, under import substitution industrialization policy, have increased the cost of manufactured inputs. Administered prices, for various crops whose marketing is controlled by government, are often insufficient to cover total costs of production, and agricultural exports are discouraged by heavy explicit taxation and overvalued domestic currencies. The net effects of these policies are reduced profit margins, insufficient incentives to adopt new technologies and a low level of private sector investment in agriculture, all of which have significantly impeded the growth of LDC agriculture.

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Possible impact of the Uruguay Round Agreement on LDC agriculture

The Uruguay Round of GATT trade negotiations, which initiated a programme of agricultural trade liberalization, was predicted to have significant consequences not only for the resolution of the problems mentioned above, but also for more general agricultural development in LDCs. However, analysis of the impact of the Uruguay Round on traditional export commodities (which constitute the bulk of LDCs' agricultural exports) suggests that the **effects are likely to be modest**. This is mainly because the Uruguay Round Agreement on Agriculture (URAA) proved to be less comprehensive than had been expected when negotiations began; and while significant reforms of the rules governing agricultural regimes in developed countries have been carried out, the degree of overall trade liberalization achieved has been rather limited.

LDCs have considered the potential for vertical diversification into processed agricultural products. Such diversification offers a real opportunity to develop endogenous capacity and is far more profitable than the export of raw agricultural goods. Unfortunately, moves in that direction tend to be restricted by tariff escalation and the Agreements on Sanitary and Phytosanitary (SPS) Measures, and on Technical Barriers to Trade (TBT). There are two main reasons for this. First, despite the general reduction in tariff escalation, a number of product chains important to developing and least developed countries are still subject to considerable tariff escalation. Second, only those LDCs that can access the necessary technical assistance to enable them to meet the high standards set under the SPS and TBT Agreements will be able to take advantage of the increased transparency of the rules governing the application of sanitary and phytosanitary standards.

Fortunately, there were a number of **concessions to LDC agriculture** in the URAA, in addition to the special and differential treatment clauses incorporated into the various Agreements of the Uruguay Round itself, and the provisions in favour of LDCs in the Marrakesh Ministerial Decisions. These provisions collectively sug-

gest that there is significant scope for the adoption of support measures to ensure that the impact of world market price volatility on domestic markets is mitigated.

Overall, the major obstacle to development in the LDC agricultural sector is not a lack of demand for produce, but rather the fact that there are severe institutional and macroeconomic **impediments to an increase in supply**. Thus, the LDCs most likely to derive the greatest benefits from the URAA are those which undertake the necessary adjustments to their production structures in order to ease their supply-side constraints and implement outward-oriented policy measures. The success of this is partly dependent on the willingness of the international community to provide the necessary financial and technical assistance to support such reforms. Under these circumstances, LDCs currently implementing structural adjustment programmes are likely to have some advantage over the others.

Food security

Although food security is primarily a problem of access by individuals or households to food (entitlements), agricultural growth – and especially food production – has a significant impact on food security in LDCs. This is because the majority of the food-insecure live in rural areas, earn a substantial share of their income from agriculture, and obtain at least some of their nutritional requirements directly from their own food production. On the basis of the most widely available measure of food security at the national level (the daily per capita energy supply, or calories per day), very few LDCs meet even the barest **minimum levels of food consumption** necessary for ensuring that all of their populations have access to adequate nutrition. Daily energy supplies are very low in more than half of the LDCs for which data are available, and in many LDCs access to food has become more difficult since the mid-1980s. The main reason for chronic inadequate nutrition is widespread poverty, household or individual incomes being insufficient to enable people to command access to their daily food needs. (In LDCs,

however, poverty and food insecurity are often associated with internal conflict; these are explored in further detail below.)

Equitable income growth is essential for reducing chronic food deficiency in LDCs. As the majority of the poor are rural farmers, policies which promote agricultural and rural development will also enhance food security by raising incomes and reducing poverty. This is demonstrated by Burkina Faso, which has made significant progress in improving food security through rural development. Furthermore, LDCs should put in place mechanisms to protect the food security of individuals and households in the event of adverse shocks such as droughts by protecting the productive assets and livelihoods of vulnerable groups. Recently, however, the most significant threat to the food security of the populations of LDCs has come not from deficiencies in agricultural policy, but rather from complex emergencies caused by internal conflict. Therefore, the most effective policy for increasing food security in certain LDCs is the promotion of peace.

The environment-agriculture nexus

Sustainable agricultural development in LDCs is inextricably linked not only with food security issues but also with environmental concerns. The greatest level of environmental degradation in LDCs is to be found in those areas where population pressure, poverty and food insecurity are intense. Although many of the arguments in the 1987 Brundtland Report, which focused the attention of the international community on the links between poverty and environmental degradation, have been the subject of some controversy, the central thesis that **poverty and environmental degradation** are linked has been conceded.

Two broad groups of causes of rural environmental degradation in LDCs have been identified which link the most severe environmental problems in many of these countries to the agricultural sector. The first group – systemic causes – relates to the context in which farming is carried out, including a combination of policy and market failures, social and political instability, and population pres-

sure. The second group - "technical" causes - relates to the use of "inappropriate technology" within a context of shortage of suitable agricultural land which has led to encroachment on marginal and fragile lands and to the overuse of open access resources.

The absence of any simple solution reflects the complexity of the problem. A traditional response to agricultural land degradation has been to increase the area of land under cultivation, thus increasing the extent of environmental destruction. Unless resources can be used more intensively and sustainably, environmental degradation will almost certainly continue in many LDCs, particularly in the more densely populated areas of Ethiopia, Madagascar and Uganda, and in the Sahelian countries. Any policy package to stem environmental degradation will be largely dependent on external resources, either through transfers or through training, since most LDCs have neither the expertise nor the financial capacity to tackle by themselves the complex links between environmental and agricultural priorities.

Rural credit

A serious impediment to private investment in yield-enhancing and environmentally sound agricultural technologies in LDCs is the **limited supply of formal agricultural credit**. Despite extensive policy efforts to enhance rural credit supply in LDCs, rural financial markets remain very poorly developed, with the majority of the rural population, including small farmers, having very limited access to formal sector credit. The extension of credit by governments at subsidized interest rates has failed to promote rural development for several reasons, in particular because much of the credit disbursed was channelled to the larger farmers or richer sections of the rural population and repayment rates were very low. Recent financial reform programmes implemented in many LDCs are directed at liberalizing financial markets with a view to improving financial intermediation. These programmes have also involved attempts to establish innovative rural financial institutions (RFIs) to serve the needs of small farmers and the rural poor.

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Policy should emphasize the creation of **financially sustainable RFIs** rather than attempts to directly control resource allocation in financial markets. This includes designing appropriate mechanisms for delivering financial services to the rural poor and smallholders, adequate incentives for managers and staff, training of staff, safeguards against abuse by insiders, as well as the legal and regulatory framework governing rural financial markets. If RFIs are allowed to allocate and price rural credit according to commercial criteria, this should increase efficiency and reduce the extent to which the benefits of cheap credit are usurped by larger farmers using political and social influence.

It is crucial that government and donors support the development of innovative RFIs capable of serving the rural poor. These institutions are likely to require significant levels of subsidy and probably technical assistance, especially in the early stages of their operation when their costs will be high because of staff training, high rates of default due to lack of knowledge about borrowers and to the inexperience of staff, and high outreach costs. Costs should fall over time as the RFI gains both experience and more detailed knowledge of its client base, and as the number of borrowers and the average loan size increase. Also, efforts should be made to assist the development of existing informal and semi-formal financial institutions, such as savings and loans companies and credit unions. Further assistance for the poorest borrowers, who do not possess suitable collateral, may be offered through group lending schemes.

It is important that governments resist the temptation to write off loans disbursed by government-sponsored or government-owned RFIs (such loans having been written off in several LDCs), since this practice merely encourages borrowers to default. The prevailing social, economic and geographical conditions in most LDCs make the development of efficient rural financial markets difficult, but with appropriate policy measures, carefully tailored to local conditions, access by small farmers and the rural poor to financial services can be improved.

Economies in Regress

Development has proved elusive for a significant number of LDCs during the last 10 years. In fact, these countries have experienced regress: their economies have declined, social conditions have worsened markedly, and they have become increasingly marginalized from the mainstream of the world economy. Regress is not the result of a temporary cyclical economic downturn but is a chronic process with important **structural characteristics**, particularly the degradation of state and social institutions. In the worst cases of regress, the entire state apparatus has disintegrated amid civil strife.

Part Three of the Report examines the nature, extent and developmental consequences of regress and state failure for the LDCs concerned, for their regional partners and for the wider international community. It emphasizes the need for effective policies to tackle regress in LDCs, and the important role which LDCs' regional partners and the international community can play. It recognizes that many of the problems faced by economies in regress are highly complex and intractable, and that international action has not always been successful. Nevertheless, it argues that the international community and regional partners cannot afford to ignore these problems and that there are concrete measures which can be taken to address them. External assistance can help to prevent state collapse in LDCs where institutional deterioration is not too advanced. In countries afflicted by internal conflicts, the regional and international community can play a vital role in brokering peace and supporting the reconstruction of social and economic structures necessary for development.

UNCTAD's interest in this subject arises because regress has major consequences for development in LDCs, for their regional partners, and for the development strategies pursued by aid donors and the international community. Just as we have learned from the experience of successful development in DCs, so it is important to draw lessons from those countries in which development has been retarded, in order to devise appropriate policies.

The nature of regress: Institutional decline and state failure

Regress in LDCs is manifested in the deterioration of a range of **economic and social indicators**, including per capita output, food availability, access to education, health status and war-related mortality and displacement. For example, between 1980 and 1994, 22 LDCs suffered falls in per capita GDP – measured in constant price dollars – of more than 10 per cent, and 12 of them had falls of more than 20 per cent. Moreover, as was argued in *The Least Developed Countries, 1996 Report*, many of the LDCs have become marginalized from the mainstream of the world economy, particularly from international trade and investment flows. Even inflows of international aid have fallen dramatically for some LDCs, because of the collapse of state structures through which aid can be disbursed and utilized. In many of these economies, private investment is deterred by political instability, lack of security and the disintegration of physical infrastructure.

Regress is not confined to LDCs – it has afflicted non-LDCs in Africa, and countries in South-East Europe and Central Asia – but severe regress and state failure have been more prevalent among the LDC group than elsewhere.

Regress is a **heterogeneous phenomenon** encompassing varied and often complex processes. There are important differences between individual LDCs in terms of the nature of regress, its scale and its causes, which means that generalizations are not always appropriate. Nevertheless, the deterioration of political and social institutions – the state and civil society – appears to be central to the process of regress in most cases. In particular, a crisis of governance characterizes most of the economies in regress. The State's capacities to provide essential public services, to maintain security throughout its territory, to mediate between competing interests, and to provide a stable economic and legal framework for the growth of the private sector and civil society have been severely eroded. The State's revenue base has also contracted in many cases. Regress is best understood as a process in which the deterioration of state capacities, the weakening of civil society and

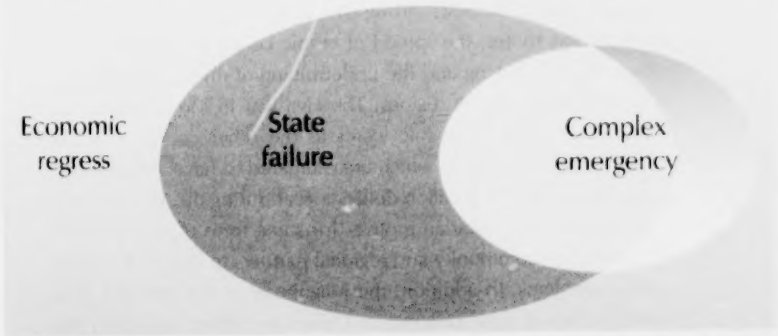
Three separate concepts can help to clarify the issues discussed in the Report: regress, state failure and complex emergencies.

"Regress" is a term used to describe a marked deterioration in one or more major indicators of economic or social welfare, such as per capita income, infant mortality, educational enrolment, and deaths due to internal conflict, over a given medium- to long-term period such as the last decade. It is a broad concept which encompasses a wide range of countries experiencing varying degrees of regress: at one end of the scale is a country which has recorded a decline in only one social or economic indicator, while at the other end is a country which has experienced substantial falls in all major indicators. A large number of LDCs display aspects of regress; that is, at least one major indicator has deteriorated over the course of the last decade.

The term **"State failure"** is used to define a condition in which the State's capacity to provide a range of services whose nature is that of "public goods" has been severely impaired. These include the maintenance of law and order, the extension of state authority to all areas of its territory, the maintenance of basic structures of public administration, the collection of taxes and their use for legitimate public expenditures (rather than for private expropriation), and the provision of essential public services such as basic education and health services, maintenance of roads, and provision of water and sewerage in urban areas. Like regress, this is a concept that can accommodate varying degrees of decline. It is not synonymous with regress, but the two concepts are related, with causality running in both directions. Economies in regress encompass all cases of state failure (i.e. all cases of state failure display important aspects of regress), but the reverse is not always the case.

Complex emergencies are humanitarian crises (e.g. famine, mass refugee movements) caused primarily by internal conflicts "resulting from sectarian or predatory indigenous responses to socioeconomic stress or marginalisation"; and they have the potential to "erode or destroy the cultural, civil, and political and economic integrity of established societies".[1] Complex emergencies are a particularly acute form of regress. They generally involve some form of state failure, and often state collapse, as in Somalia. But state failure is not a precondition for complex emergencies. Some of these have occurred in countries in which a strong centralized State retains control over all but a relatively small portion of its territory. In such cases, the emergency often arises not because of state weakness *per se*, but as a result of deliberate actions by the State against civilians it perceives as its opponents, e.g. the destruction of crops.

The chart below illustrates the relationship between the concepts of regress, state failure and complex emergencies.



[1] M. Duffield, "Complex emergencies and the crisis of developmentalism", *Institute of Development Studies Bulletin*, vol. 25, No. 4, 1994, p. 38.

economic decline interact to reinforce one another, fuelling a downward spiral of economic, social and political decline.

Internal conflict

The most extreme cases of regress involve armed internal conflict. Over one-third of the countries in the LDC group have experienced some form of violent civil strife since 1980, with high (predominantly civilian) mortality, the displacement of large numbers of people from their homes and livelihoods, and the destruction of infrastructure and productive assets. In many countries, agriculture has been particularly badly affected because farmers have been driven from their land by fighting. Problems persist even after the fighting has ended. One major obstacle to the resumption of normal economic activity, for example, is the presence of anti-personnel mines on agricultural land. Not surprisingly, countries afflicted by internal conflicts have recorded a markedly worse economic performance than those that have remained peaceful. Complex humanitarian emergencies – famines and other humanitarian crises caused primarily by internal conflicts – have occurred in several LDCs and have attracted widespread international concern and, in some cases, intervention by the international community.

Implications of regress

While state failure, the deterioration of social institutions and internal conflict have become major obstacles to development in many LDCs, their consequences often extend beyond international borders. The destabilizing effects of refugee flows, disruption of transport routes, the spread of ethnic conflicts, increased banditry, drug trafficking and the undermining of investor confidence can encompass entire regions. The civil war in Mozambique, for example, caused economic losses to the other countries of the Southern African region which are estimated to have amounted to approximately 7 to 8 billion dollars a year during the 1980s. There are obvious humanitarian motives for some form of action by the international community and regional partners to help LDCs tackle these problems. In addition, the magnitude of the potential economic costs of state collapse and internal conflicts indicates that

huge benefits could accrue from effective international action to ensure peace, stability and the maintenance of effective state structures. The international community cannot afford to ignore the problems of regress, nor can it afford to delay effective action until regress has degenerated into a humanitarian crisis. Moreover, regress is **not an irreversible process**: the experience of several LDCs, including Uganda, has demonstrated that peace can be restored and that economies and state structures can be rebuilt, even after prolonged and devastating civil war.

How can the international community assist economies in distress?

While the need for international assistance is evident, there are few obvious or easy solutions to the problems of regress. Policy responses should reflect the particular circumstances of individual countries. However, because institutional decline – and especially the deterioration of state capacities – is a major factor in most cases of regress, providing support for the building and strengthening of institutions is clearly an important area in which the international community can play a positive role.

Preventing state collapse

In the majority of LDCs the State has not collapsed, but in many countries there has been a significant decline in state capacities to provide basic economic and social services, as noted above. In some of these countries, further deterioration might eventually lead to state collapse. A priority for the international community, therefore, should be to help these LDCs **strengthen the State** (and elements of civil society where necessary) before further institutional deterioration threatens more serious consequences.

The international community should provide financial and technical assistance to strengthen state capacities in these LDCs. Assistance can take the form of training of personnel, funding to ensure that public servants receive adequate salaries, the provision of equipment, and technical assistance to expand the State's revenue base. The training and education of the army and police in

order not only to enhance their technical capabilities, but also to foster the development of an ethos of civic loyalty and responsibility, would be especially valuable in many countries.

The international community should also provide assistance and incentives to **support democratization in LDCs**. It should assist in the creation of political, bureaucratic and legal structures which enhance transparency and accountability, strengthen the linkages between the government and the people, and encourage popular participation in politics. The objective must be to foster the development of States that are democratic and embrace all sections of society, and at the same time are able to provide the basic public goods and services essential to economic and social development. It is encouraging that more democratic forms of government have been introduced in a number of LDCs in recent years. Democracy is not meant to be a panacea for all the economic problems of regressed economies, but non-democratic governments have a very poor record in LDCs, and democratic political structures are more likely to be conducive to the long-term management of complex social and ethnic conflicts. International agencies can play a valuable role in monitoring the evolution of state and social institutions in LDCs so that timely assistance can be given to prevent institutional decay.

Reconstructing war-torn economies

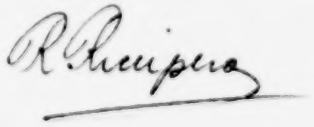
A number of LDCs are currently recovering from major civil wars, having managed to put in place a political settlement of the conflict. The primary challenges facing these countries are to consolidate peace, integrate former combatants into civilian life, rehabilitate productive capacity and infrastructure, revive the economy, and rebuild state and civic institutions. Reconstructing war-torn economies is a difficult but not impossible task. In view of the destruction of the economic, human and natural resource base of these countries, reconstruction will require the international community to provide major financial and technical assistance programmes.

Conclusions

The key message of this part of the Report is that urgent action by the international community to help LDCs tackle the widespread problems of economic and social regress, state failure and internal conflicts in LDCs should be a priority. The potential human and economic costs of regress are enormous, and not confined to the regressed economies themselves. Effective action to tackle these problems will require the investment of substantial resources by the international community to strengthen institutions and state structures in LDCs, support peace-keeping, provide humanitarian assistance and rebuild war-torn economies.

Throughout this process, the international community must pay attention to the actual situation in these countries, nurturing and reorienting indigenous capacity where possible. This will require an extended policy engagement, and demand a high level of resource deployment. Although these costs may seem high, they are quantifiable and can be planned for, unlike the almost certainly higher costs imposed by continued conflict and regress. It is in the long-term interests of all parties to try to reverse regress – and with a broad, well-funded, politically balanced and sensitive policy package, there is every hope that, in time, regressed States will be back on a path to sustainable development.

If effective policies to tackle regress are to be designed, a comprehensive, multi-disciplinary analysis of the causes and dynamics of regress is essential. Such an analysis should focus on drawing from the experience of regressed economies the relevant lessons for the policies and strategies of LDC governments, donors and international organizations.



Rubens Ricupero
Secretary-General of UNCTAD

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